

The Core Challenges for Municipalities

Today's municipal government plays a greater role in the lives of Canadians than any other time in history. Municipalities no longer simply plow the streets and pick up the garbage. Sure today's municipal corporation still cleans the streets and collects garbage (and recyclables), but it also is sustainably managing growth through everything from state of the art transit systems to environmentally conscious land use and water planning. The pioneers of municipal government would be astonished to see today's council agenda where elected officials are doing everything from recruiting doctors from around the world to providing funding for daycares.

These new realities are having serious repercussions for municipalities as they diligently try to balance growing responsibilities with stagnant revenues. Everyday municipalities are facing new demands from both citizens and other orders of government and must try to balance these with existing priorities and scarce revenues that remain overly reliant on the ebb and flow of grant programs. The current challenges facing municipalities are overwhelming and there must be a greater effort to address these if we want to see strong vibrant communities throughout our province.

While municipal concerns cut across every provincial department, there are two core issues that are most pressing for municipalities today - the ballooning municipal infrastructure deficit and the growing mandate of municipal government, either through intentional and unintentional offloading of responsibilities from other orders of government and unfunded mandates. These two challenges are crippling municipal government and keeping Manitoba communities behind.

Municipal Infrastructure Deficit

It is no secret that municipalities are facing nearly insurmountable infrastructure challenges. We only need to take a look around our communities to see the deteriorating state of our infrastructure. Roads that are nearly impassable due to potholes and heaving, drafty libraries with crippling heating bills, recreation complexes with leaking roofs and water and sewer treatment plants that are running beyond capacity. These are the very foundation of a community, yet their current state leaves

communities with little hope for prosperity. For Manitoba communities to thrive in the future these swelling infrastructure challenges must be addressed.

In Canada the municipal infrastructure deficit is in excess of \$123 billion for current needs. Most alarming is how quickly the deficit has been compounding, as it has doubled over the last 5 years. Equally alarming, the \$123 billion is only for the upgrade and repair of current municipal infrastructure, with another \$115 billion required for new infrastructure.¹

These national trends hold true for Manitoba as well. The City of Winnipeg has recently calculated its infrastructure deficit at \$3.8 billion for existing infrastructure and \$3.6 billion for new strategic infrastructure.² Historically the municipal infrastructure deficit outside of Winnipeg has been double that within Winnipeg so it is fair to extrapolate that the deficit outside Winnipeg is over \$7.5 billion, putting the total municipal infrastructure deficit in Manitoba in excess of \$11 billion, or a staggering \$10,000 per Manitoban. It is certainly an insurmountable amount for municipalities to tackle on their own since the total municipal taxes levied in 2007 were just over \$730,000,000.³

There is no doubt the current infrastructure deficit is crippling Manitoba's economy. Adequate infrastructure is an obvious prerequisite for economic development and unfortunately it is greatly lacking in many communities. FCM has investigated this principle in depth and found that an increase in municipal infrastructure spending of \$1 billion in 2008 (at nominal process and allocated to a representative mix of infrastructure) would increase the size of the real economy by roughly 0.13 percent or \$1.3 billion in nominal terms. While this would erode slightly over time with consistent investment, over a four year period it would still result in meaningful gains to the economy, dropping to a 0.6 percent increase in the final year. The resulting investment would be felt in the employment sector as well, since a great number of industries would benefit. A \$1 billion investment in 2008 would add 11,500 new jobs, which

¹ Saeed Mirza, "Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure", November 2007 (available at www.fcm.ca)

² City of Winnipeg Administrative Report, "Infrastructure and Possible Funding Options" Tabled at July 22nd, 2009 Council Meeting (available at www.winnipeg.ca)

³ Province of Manitoba, "Statistical Information 2007 – Municipalities of the Province of Manitoba", P.17

would be felt in industries from labour and material suppliers through to architects and engineers.⁴

Providing adequate infrastructure has both direct and indirect benefits for private-sector manufacturing. Infrastructure is an intermediate input into the production process, with businesses locating where there is access to water, hydro and transportation. New roads reduce fuel costs and haul times. Access to high quality (and adequate) water reduces input costs. There is also evidence that increased investments in public infrastructure allow private companies to use labour inputs more intensively, translating into more jobs.⁵

While the numbers are staggering, of far greater concern is the very real impact this infrastructure deficit is having on the people who live in Manitoba. Manitobans are experiencing longer commutes to work either because of impassable roads or slower speeds. We are also spending more time travelling to neighbouring communities to access recreation opportunities. Many have seen the outmigration of neighbours and friends who tire of dealing with these daily challenges.

Municipal councils want to create vibrant, welcoming communities, but this is nearly impossible with the state of infrastructure today. For example, there remain 137 boil water advisories in Manitoba, many in Manitoba municipalities.⁶ This means in 2010 thousands of Manitobans do not have access to safe drinking water when they turn on the tap. It is unreasonable to think these communities can realistically compete with the rest of Manitoba and Canada if they do not have this essential infrastructure.

Ever Increasing Responsibilities

A second core challenge for municipalities is ever increasing responsibilities. Municipalities are continually being asked to do more and more, either through the intentional or unintentional offloading of responsibilities from other orders of

⁴ Sonnen, Carl, "Municipal Infrastructure- Macroeconomic impacts of spending and level-of-government financing" May 31, 2008 (available at www.fcm.ca)

⁵ Brox, James A. "Infrastructure Investment: The Foundation of Canadian Competitiveness - IRPP Policy Matters 2008" August, 2008 (available at www.irpp.org)

⁶ Province of Manitoba "Provincial Boil Water Advisories" – January 11th, 2010

government or through new unfunded mandates being forced on municipalities by the provincial and federal government. These new responsibilities do not come with new revenue sources and result in municipal budgets being stretched thinner and thinner. The sad reality is that as municipalities are being forced to take on more the core municipal responsibilities suffer.

Municipal officials believe in their community. This is where they live, most often where they work and sometimes where they were born. They care greatly about their community and when they see a need they will do everything they can to address it. Many times municipal officials are their own worst enemy, as they step in and act where other orders of government have abdicated their responsibilities. Municipalities step up and do repairs on provincial roads, they recruit physicians from all corners of the world, and they help fund community health facilities. In some cases municipalities are just filling gaps in service unintentionally left by other orders of government and other times municipalities are stepping in because the provincial and federal governments have made it clear their community will not get the service or investment unless they do.

Compounding this is the growing trend of unfunded mandates being heaped on municipalities by the provincial and federal governments. Too often new rules are implemented without adequate thought to how they can possibly be implemented. These unilateral decisions leave municipalities in the untenable position of either sacrificing core programs and services or being in non-compliance of provincial rules. Unfortunately we are hearing more and more from municipalities that they are being forced to opt for the latter.

Municipalities cannot keep pace with the rapid increase in the offloading of responsibilities and unfunded mandates. These challenges are pushing municipalities further and further behind.

Alternate Revenues

Now more than ever municipalities need new tools to deal with new responsibilities and new expectations. Currently Manitoba municipalities are more reliant on provincial

and federal grants than any other province in Canada⁷. While in some cases these types of programs are necessary (for example large-scale infrastructure projects), it leaves municipalities having to compete against each other for limited dollars and restricts a municipality's ability to properly plan for much needed investment. The amount allocated to grant programs like the recent Municipal Rural Infrastructure Fund or community infrastructure funding under the Building Canada Fund is nowhere near the total demand, meaning there is no guarantee much-needed projects will ever receive funding.

Over-reliance on grants and transfers leaves municipalities without the tools required to meet demands. Many municipal issues, when stripped down to their core, are really issues of access to revenue. For example, the need to remove education tax from property is really a municipal revenue issue, as municipalities see education tax as eroding the property tax base, which is the single greatest source of municipal revenue. Over the last number of years we have seen more and more municipalities speaking out on the need for greater municipal revenue sources.

It is important that the federal and provincial government contributions to municipalities are not forgotten. Federally, municipalities have benefited from a GST rebate, the sharing of the federal gas tax and the Building Canada Fund as well as Stimulus Funding. Provincially, municipalities have benefited from the sharing of provincial income tax, the Building Manitoba Fund, and supports in several other areas. We also appreciate the Province stepping up with their one-third share of recent federal programs. The message the AMM is hoping to convey is not that either order of government has completely forgotten about municipalities, but rather that despite these efforts municipalities still face enormous challenges and more is needed.

Municipalities must have access to new revenue sources. A greater reliance on property taxes and provincial and federal grants has created an ever-widening chasm between municipal revenues and needs, leaving future generations with what is quickly becoming an insurmountable infrastructure deficit. Municipalities are struggling to deliver core services as their budgets begin to crack under increased demands.

⁷ Slack, Kitchen, McMillan, Vaillancourt, "Roles, Responsibilities, Resources and Relationships – Report to the Provincial and Territorial Municipal Associations" June 15th, 2007.

A new approach is needed, and for this reason we are asking the Province of Manitoba to collect a one cent municipal tax to be allocated to municipalities for infrastructure and split equally among municipalities on a per capita basis. This will provide municipalities with in excess of \$200 million a year. For a community of 1,000 people, this means roughly an investment of \$185,000 in their local infrastructure, or \$370,000 for a community of 2,000 people. A community such as Thompson could see close to \$2.5 million, while Winnipeg would expect to see over \$117 million. Although this funding alone will not erase the infrastructure deficit in Manitoba, it is a positive first step.

While the AMM is not necessarily asking for a new tax, there is support among Manitobans for a new tax dedicated to municipal infrastructure. Polling done by AMM in 2008 found that 94 percent of Manitobans see infrastructure as a high priority, including a 94 percent positive response rate in Winnipeg. The poll also found that 55 percent of Manitobans think that municipalities do not have the revenue sources needed to cover infrastructure costs alone, including 50 percent in Winnipeg. Most interestingly, the poll found that 54 percent of Manitobans, including 51 percent of Winnipeggers, support an additional one percent municipal tax dedicated to infrastructure renewal projects⁸. As the infrastructure deficit continues to grow, support for this will only increase.

The AMM is also asking for other revenues sources for municipalities, such as a rebate of the Provincial Sales Tax as well as increases to existing sources such as VLT revenues. We would also ask that any new mandates for municipalities be accompanied with corresponding financial support.

The sad reality is that while the Province of Manitoba has been leaders in some municipal areas, it has not been enough. We have the opportunity to visit every municipality in Manitoba within the four year election cycle and it is clear our communities are struggling and we are falling behind.

⁸ Probe Research "Public Attitudes on Infrastructure Renewal Funding in Manitoba" September, 2008.

We understand that providing additional revenues to municipalities may become more difficult as the economy continues to fluctuate. While economic projections can never be taken as absolute fact, they are often a prophetic divining rod on economic times. However what should not be lost is the positive impact infrastructure investment would have for the provincial and national economy. Furthermore, delaying investment in these critical infrastructure projects will have serious long-term consequences for Manitoba's economy.

Municipalities are not looking for new revenue sources to store money away for a rainy day. The storm has arrived. With a national municipal infrastructure deficit in excess of \$123 billion, and Manitoba's share in excess of \$11 billion, there is no shortage of work to be done. If municipalities are left to deal with this ballooning deficit alone armed only with property taxes and grants, it will continue to grow exponentially. Alternatively, providing municipalities with new revenue sources will not only begin to address this growing deficit, but will help build and strengthen our economy.

The time has come for a new approach to municipal funding. The expectations of today's municipalities are greater than any time in history. Regrettably so are the financial challenges facing municipalities. For municipal government to be sustainable into the future, and for Manitobans to have access to the quality of life they deserve, municipalities need to have access to sustainable growth revenues. This is the only way municipalities will be able to even begin to address the core challenges they face.

Therefore the AMM would like to see:

- 1. A greater investment in municipal infrastructure by all levels of government**
- 2. An end to the downloading of responsibilities to municipalities and a requirement that new mandates come with new funding**
- 3. A commitment to provide new alternate revenues to municipalities**